

Exhibit A-11

Fiscal Reforms, Entrenched Challenges and Future Objectives

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**MINISTRY OF FINANCE
FISCAL SECTOR WORKING GROUP
APRIL 8TH, 2015**

Political Overview



- Israeli elections were held on March 17th.
- Process of coalition government formation may last throughout mid-May (42 days from date of mandate).
- Shape of the forthcoming government is still uncertain. However, most likely scenarios are:
 - A center-right government with Haredi parties.
 - A last minute coalition government with Zionist party.

Political Overview

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- In any event, we do not expect the same kind of constructive relationship between Ministry of Finance and Israeli counter-part that existed during the best part of 2013/4.
- Withholding of clearance revenues has become, on recurring basis, Israel's coercive policy of choice.
- Starting from April, the Israeli government has decided to partially release the withheld funds after exercising arbitrary and unilateral deductions.
- On April 2nd 2015, the Israeli government has transferred NIS 1.37 billion, representing frozen funds from December-February, after exercising arbitrary deductions amounting to NIS 526 million.
- Furthermore, they have failed to transfer the entire clearance product of March, expected to be in the range of no less than NIS 520 million on net basis.

Economic Overview

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- The effect of the freeze of funds (Dec through April), occurred barely a few months after the end of warfare in Gaza. It has inflicted upon the economy a severe blow:
 - GDP experienced overall contraction by -0.37 versus an anemic growth in 2013.
 - As leading indicators, January exports declined by 5% and imports by 10%.
 - Outlook for 2015 is for a further decline in GDP, unless a favorable change in circumstances occurs no later than Q3 of this year.
- Donor aid in 2014 has declined by 19% relative to 2013, and is projected to decline further by 22% in 2015, compared to 2014.
- Redirection of donor aid towards Gaza reconstruction and rehabilitation poses a clear risk to economic stability.

SECTION 1

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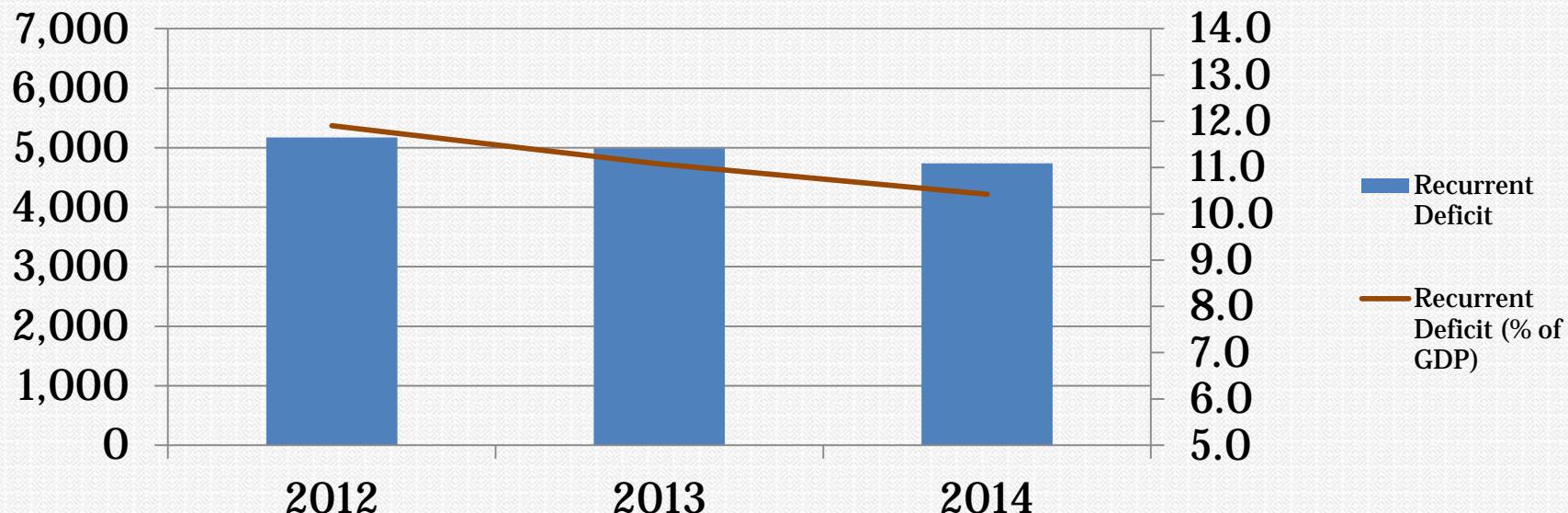
MANAGING THE BUDGET DEFICIT:

“The reduction and in due course elimination of the recurrent budget deficit is at the core of MoF strategies -- and guides all our actions on the revenue and expenditure fronts.”

RECURRENT BUDGET DEFICIT: 2012-2014

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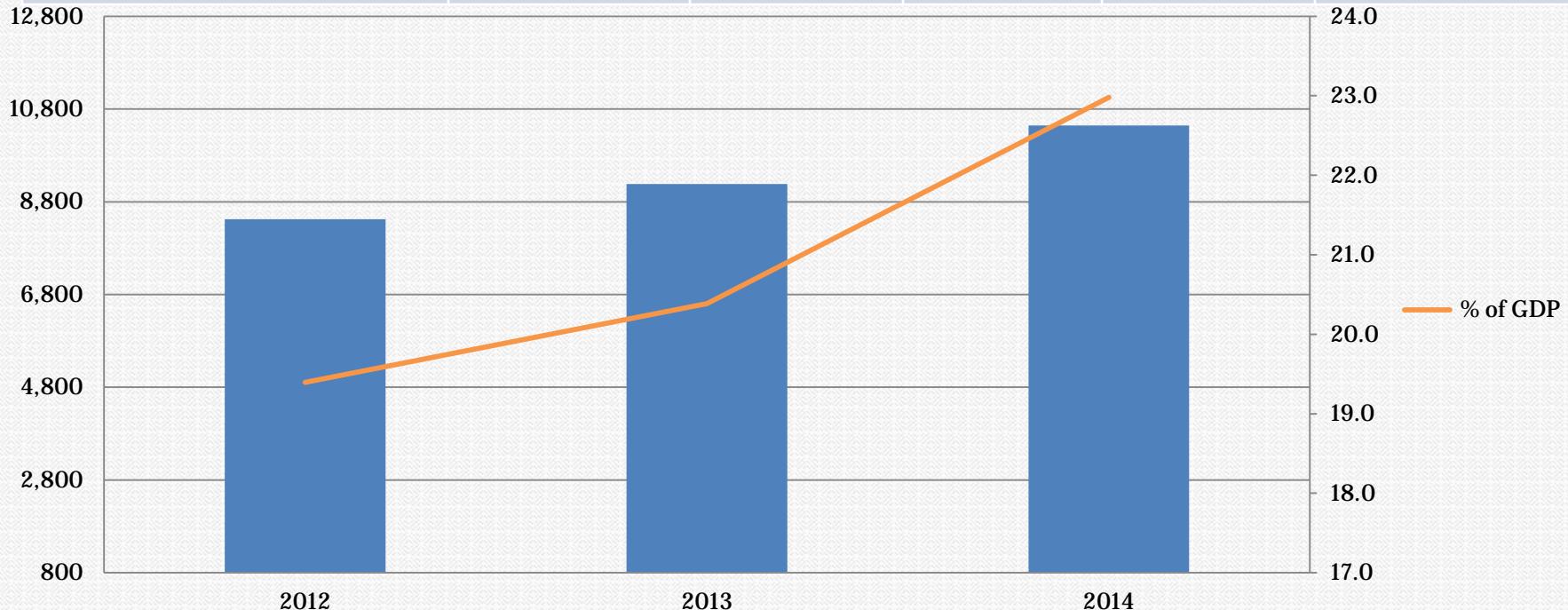
Indicator/Year	2012	2013	2014	2015 Budget with Clearance	2015 Budget without Clearance
Recurrent Balance	-5,170	-4,988	-4,738	-4,462	-12,159
% Change	24%	-4%	-5%	-6%	+157%
Recurrent Balance as % of GDP	-11.9%	-11.1%	-10.4%	-10%	-26%



GROSS REVENUES: 2012-2014

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Indicator/Year	2012	2013	2014	Q1 2015	Q1 Annualized
Gross Revenues	8,423	9181	10445	2883	11,532
% Change	-	9%	14%	-	10%
% of GDP	19.4%	20.4%	23.0%	-	24.7%



GROSS DOMESTIC REVENUES: 2012-2014

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Indicator/Year	2012	2013	2014	Q1 2015
Gross Domestic Revenues	2806.4	3078.5	3114.3	986
% Change	-	9.7%	1.2%	-
Domestic Tax Revenues	1852.0	2157.2	2148.8	753
% Change	-	16%	0%	-
Nontax Revenue	954.4	921	965.6	233
% Change	-	-3.5	15%	-

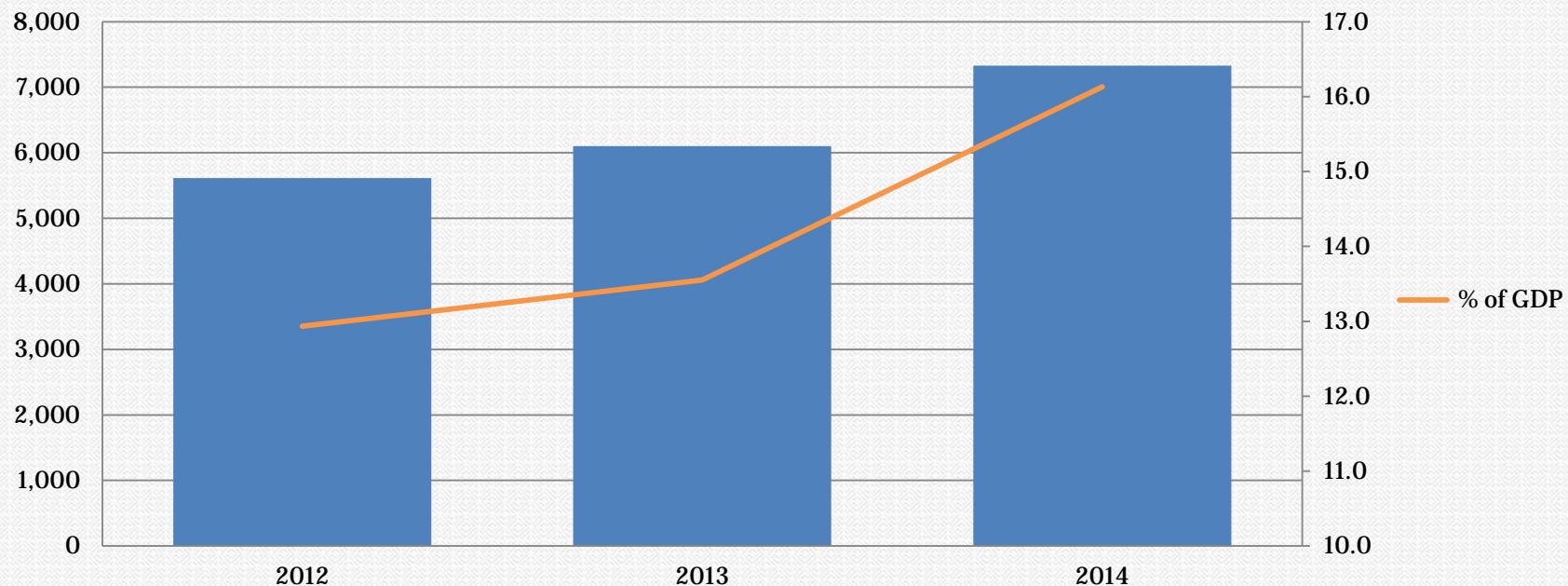
If domestic tax revenues were *adjusted* for **tobacco excises** and **non-recurring items** (i.e. payment of NIS 80 million outstanding files by LTU in November 2013), then:

- Domestic tax revenue would increase by **13%** in 2014 relative to 2013.
- Gross domestic revenues would increase by **10%** in 2014 relative to 2013.

CLEARANCE REVENUES: 2012-2014

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Indicator/Year	2012	2013	2014	Q1 2015*	Projected 2015
Clearance Revenues	5,617	6,103	7,331	1,891	7,697
% Change	10%	9%	20%	-	5%
% of GDP	12.9%	13.6%	16.1%	-	16.5%



EXPENDITURES: WAGES AND EMPLOYMENT

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Indicator/Year	2012	2013	2014	Q1 2015
Wage Bill (NIS Millions)	6812	6928	7336	1801
% Change	6.8%	1.7%	5.9%	-
Employee Count	154218	154386	155682	-
Change	1165	168	1296	-

- A guiding commitment to a zero-net hiring policy was adopted in 2012, with determined efforts to cap headcount growth.
- Wage bill growth rate in 2013 experienced a significant drop.
- In 2014, a relatively small increase in public employment occurred mostly due to extraordinary factors (i.e. court decisions and security personnel)
- No increase in headcount is projected for 2015.

EXPENDITURES: WAGES AND NET-HIRING

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Indicator/Year	2012	2013	2014
Employee Count	154218	154386	155682
Change	1165	168	1296
Percentage of Total Employee Count	0.76%	0.11%	0.83%

Replacements/Hiring 2014	Number
Security Personnel	454
Cabinet decision to re-hire personnel in the education sector	698
Exceptional hiring by presidential decree	11
Replacements	133
Total	1296

EXPENDITURES:

NONWAGE EXPENDITURES AND NET LENDING

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Indicator/Year	2012	2013	2014	Q1 2015
Nonwage Expenditure*	5709.0	5648	6198	1689
% Change	-	-1.07%	9.74%*	-
Net Lending	1,072	760	1,022	0
% Change	-	-29.1%	34.5%	-

- All ministries operated within the budget for operational spending, except for the Ministry of Health due to increased deductions on health referrals to Israeli medical facilities.

- Total health deductions by Israel increased from NIS 240 million in 2013, to NIS 347 million in 2014 (a 45% increase in deductions in just one year).

SECTION 2

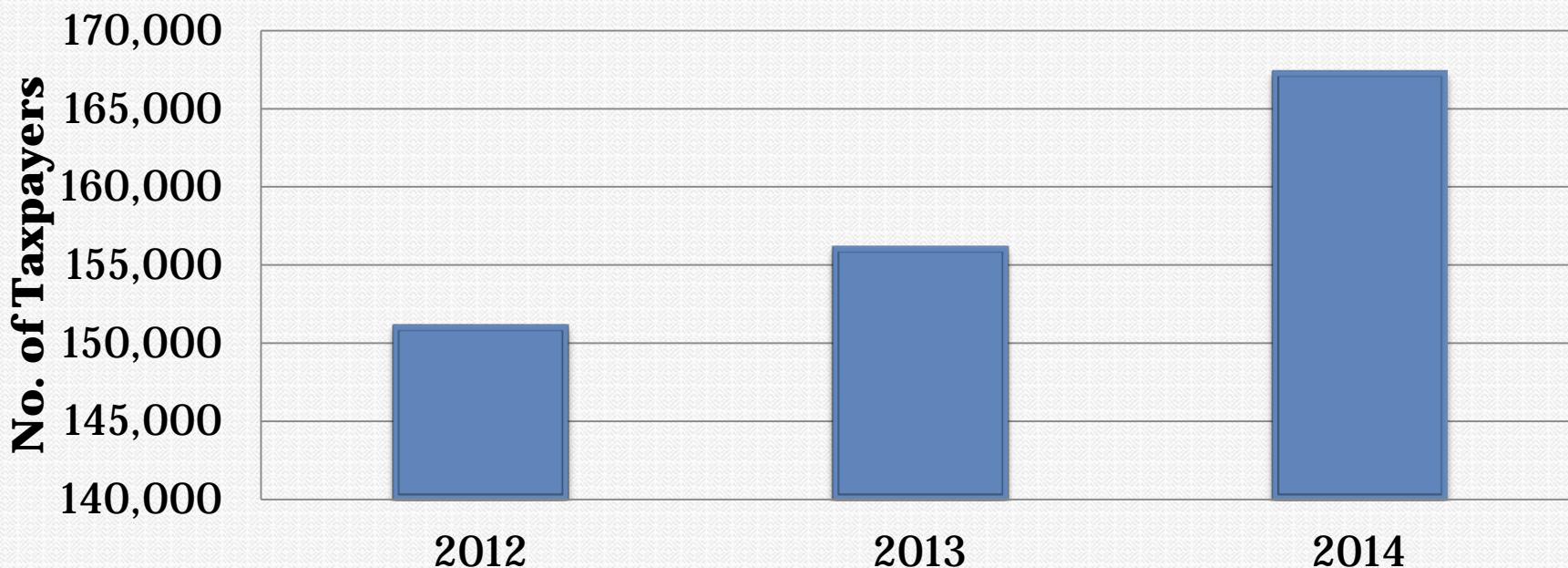
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FISCAL REFORMS AND LANDMARK ACHIEVEMENTS

SPREADING THE TAX BASE HORIZONTALLY: A KEY REQUIREMENT FOR ENHANCING DOMESTIC TAX REVENUES

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Year	2012	2013	2014	Q1 2015	Projected 2015
No. of Registered Taxpayers	151,212	156,231	167,431	169,798	179,431
Increase	-	5019	11200*	2367	12,000



NET LENDING: ELECTRICITY REFORMS

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Electricity continues to be a main drag on PA resources.

1. Established the Palestinian Electricity Regulatory Council (PERC) in February 2010.
2. Promoting the development and utilization of renewable energy resources.
3. Institutional and capacity building of the utilities including the creation of NEDCO.
4. Rolled out pre-paid meters to reduce non-payment and pilferage in the West Bank (229,600 procured).
5. Cabinet decision to enforce payments by municipalities on November 11th, 2014.
→ *This decree aims to reduce non-payment for electricity services from end consumers through preventing non-paying customers from obtaining clearance to some civil servicers, like renewing a driver's license.*

NET LENDING: ELECTRICITY REFORMS

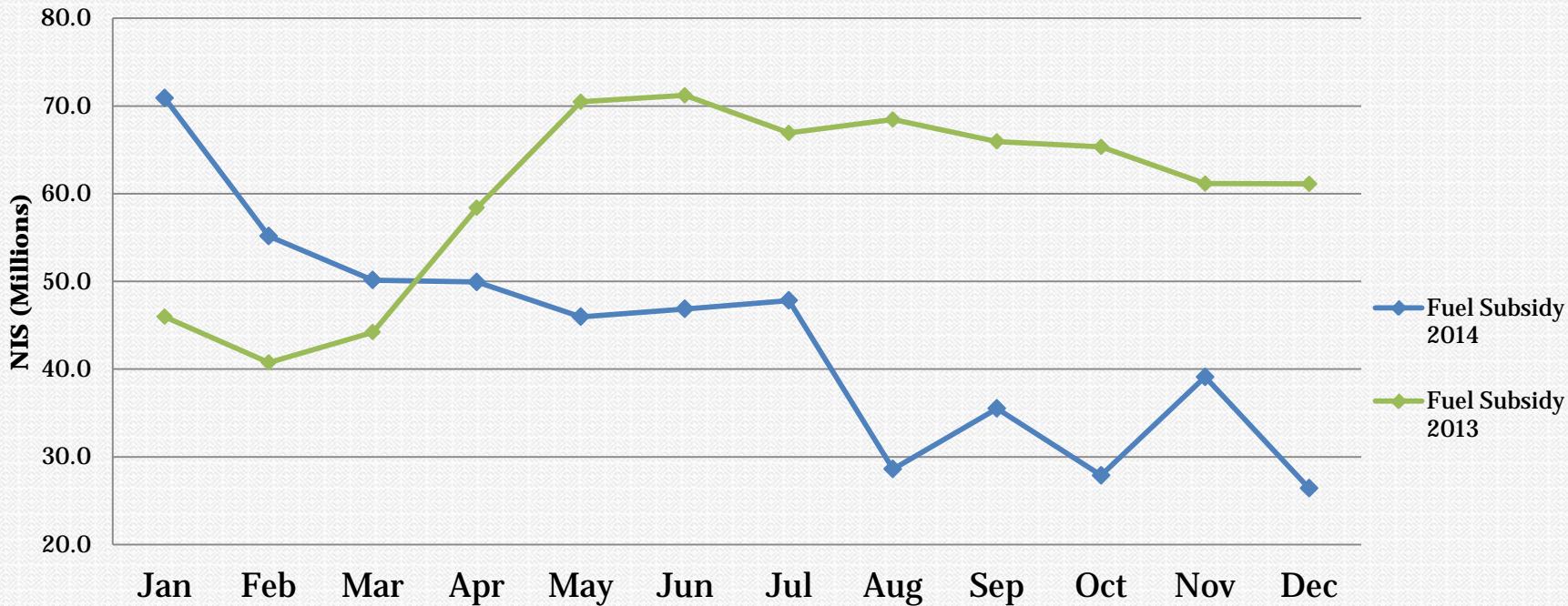
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Indicators	2013	2014
1. Collection Rate	67%	82%
2. Payment to IEC		
a. <i>JDECO</i>	56%	67%
b. <i>NEDCO</i>	53%	60%
c. <i>HEBCO</i>	55%	75%
d. <i>TEDCO</i>	64%	65%

DRASTIC REDUCTION OF FUEL SUBSIDY: 2013-2014

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- Government decision to gradually phase out subsidy since Q3 2013.
- Cost of subsidy reduced by 2/3 from its peak, to no more than NIS 25 million per month by end 2014.
- This reduction translates into saving around NIS 45 million per month, or NIS 540 million per year.
- Gradual termination of free 40 day working capital financing and conversion to cash payment basis.



1998 INVESTMENT PROMOTION LAW: A TRULY COUNTERPRODUCTIVE PROPOSITION

- The law of 1998 constituted an open ended zero-rate tax holiday:
 - The aggregate loss is estimated to be around NIS 107 million per year for the largest 58 companies.
 - The overall opportunity loss is estimated at around NIS 200-250 million per year.
 - This implies that around 6%-7.5% of potential domestic tax revenue was foregone each year.

1998 INVESTMENT PROMOTION LAW: AMENDMENTS

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- In 2014, the 1998 investment promotion law was amended.
- Full tax exemptions were revoked. However, fresh investments in the agricultural sector continues to enjoy an 8-year tax exemption.
- The current law provides for a progressive reduction in the rate of exemption:
 - 5% for the first five years
 - 10% for the consecutive period of 3 years
 - Alignment with the tax regime following the first 8 years.

COMMITMENT TO THE PENSION FUND

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- The pension funds constitutes a major social and financial risk, and is a moral liability that the MoF is addressing.
- Prior governments, due to fiscal stress, were unable to transfer wage contributions with the result that the contingent liability to the pension fund has accumulated to around \$1.63 billion.
- However, a firm undertaking was assumed by the MoF to address this issue and reduce the liability by effecting minimum monthly payments of at least NIS 10 million.

Year	2012	2013	2014	Q1 2015	Projected 2015
Transfers (NIS Million)	0	0	16	30	120

REDUCTION OF ARREARS TO THE PRIVATE SECTOR

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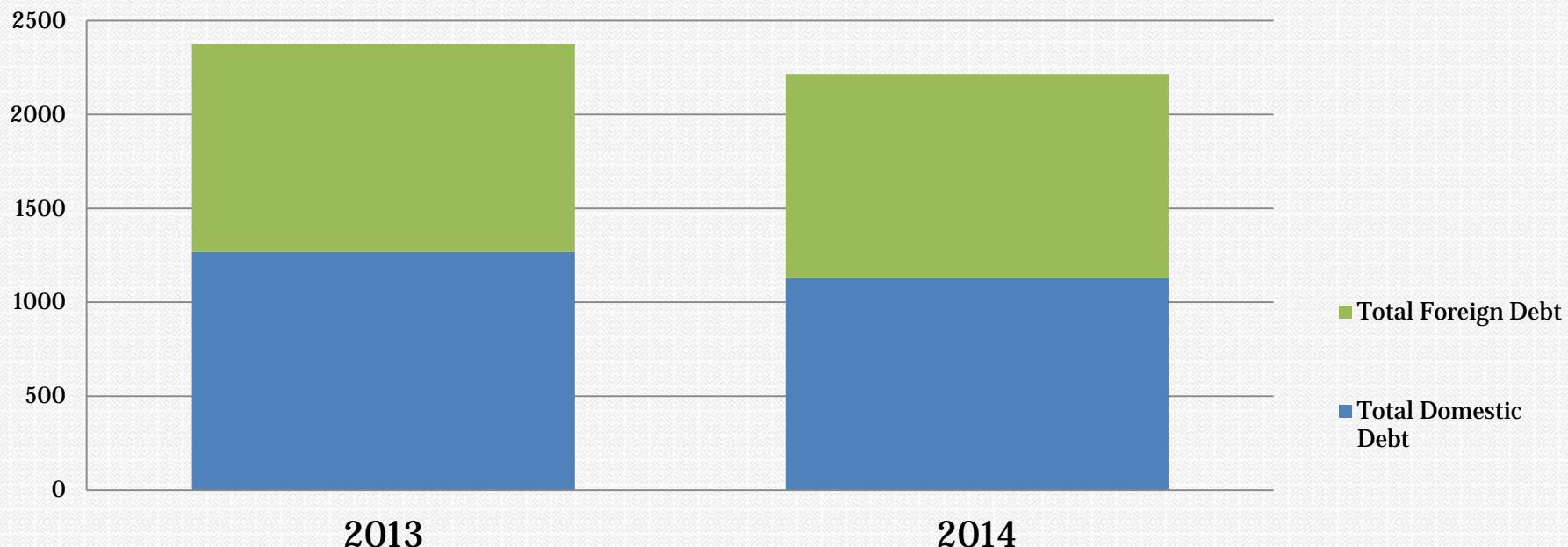
- Private sector arrears continue to be a main drag on the economy.
- In 2014, four rounds of accelerated payments were effected to reduce private sector arrears.
- By year end 2014, arrears to the private sector reached USD 473 million, a reduction of USD 81 million from the accumulated amount in 2013 (at USD 554 million).
- The MoF plans to resume accelerated payments once clearance revenue transfers have stabilized.

Indicator/Year	2013	2014	Difference
Stock of Private Sector Arrears (USD million)	554.5	473.2	-81.4

REDUCTION OF COMMERCIAL BANK DEBT/ A COMMITMENT TO AVOID OUTCROWDING OF PRIVATE SECTOR

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Indicator (USD Million)/Year	2013	2014	Difference
Total Domestic Debt	1268	1128	-140
Total Foreign Debt	1108	1088	-20
Total Debt	2376	2217	-160*



SECTION 3

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ENTRENCHED CHALLENGES

CHALLENGE 1: GAZA EXEMPTIONS AND FOREGONE REVENUES

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- A decree was passed in June 2007, exempting the income-generated out of Gaza from all taxes (VAT and income tax).
- This is tantamount to a tax exemption for 40% of the Palestinian population.
- By contrast, expenditures in Gaza represent 47% of the PA's budget.

CHALLENGE 2:

GAZA EXPENSES

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Expense	Monthly (NIS Millions)	Annually (NIS Millions)	Combined 2007-2014 (NIS Millions)
Salaries (63,000 employees)	245	2,940	23,520
Ministry of Health	20	240	1,920
Development Exp.	20	240	1,920
Social Safety Transfers	38	456	3,648
Infrastructure Projects	2.5	30	240
Electricity/Water	62	744	5,952
Fuel Subsidies	10	120	960
TOTAL (NIS MILLIONS)	397.5	4770	37,920

Total balance of payment transfers to Gaza are estimated at USD 1 billion per annum; thus 8 USD billion over 8 years.

CHALLENGE 3: CLEARANCE REVENUES

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Challenges

- Closely correlated to volatility in the political relationship with Israel (e.g. Boycott campaign implies lower imports and lower VAT collection).
- Unilateral deductions by Israel with respect to electricity, water, sewage and health, which reduce net clearance revenues.
- Abusive processing fees
- Paris protocol lacks jurisdiction attribution nor arbitration mechanisms to redress unfair unilateral deductions and other actions by Israel.

CHALLENGE 4: THE WAGE BILL

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- Overall, the total wage bill represents around 16% of GDP, which is substantially higher relative to international and regional standards.
 - Egypt: 9% of GDP
 - Lebanon: 6.6%
 - Germany: 4.2% of GDP
 - United States: 4.2% of GDP
- PA expenditures on the security sector are large by international standards- i.e. the total wage bill of the security personnel represents around 8% of GDP.
- Overstaffing by certain PA organizations (security, public education and health sectors).
- Annual automatic increase of 1.25% imposed by law.
- Series of wage settlements, between 2013 and 2014, with built-in inflationary impact on the wage bill.

SECTION 4

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2015 OBJECTIVES AND BUDGET

HIGHLIGHTS OF EMERGENCY BUDGET

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- The main assumptions on this budget are predicated on the premise that the withholding of clearance funds may continue on a protracted basis.
- The emergency budget was passed by Cabinet on March 17th, approved by legislative groups on March 22nd, and ratified by Presidential decree.

➤ Key Financial Assumptions

- Gross domestic revenues to reach **NIS 3.3 billion**, equivalent to NIS 275 million per month.
- Budget support to reach **NIS 3200 billion (USD 800 million)**, equivalent to NIS 266 million per month.
- Payment of 60% of wages while paying full salaries to lower income earners (less than NIS 2000).
- Social welfare transfers are to be paid in full, to alleviate hardships.
- Nonwage expenditures are to be paid at 50% of 2014 limits.

HIGHLIGHTS OF BASELINE BUDGET

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- Commit to social transfers to vulnerable Palestinian families.
- Adhere to disciplined transfer to the pension fund.
- Continue the systematic reduction of arrears to the private sector.
- Maintain of commercial bank debt within prudential limits.
- Follow through fiscal policy and public financial management reforms.

THE NATIONAL RECONCILIATION

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WEST BANK AND GAZA

THE NATIONAL RECONCILIATION: FINANCIAL DIMENSION

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- Notwithstanding the obstacles, the PA has made remarkable efforts to pass on reconstruction and humanitarian aid to Gaza.
- Total funding received is around **USD 381 million**; of which, USD 162 million were directly implemented to the various government ministries and agencies, and the rest was channeled through various UN and other implementing agencies.
- Total funding agreed upon is around **USD 706 million** from various country donations: Kuwait, KSA, Qatar, and UAE.

Sector	Amount (in millions USD)
Housing	9
Water	31
Agriculture	16
Energy	34
Local Gov'ts and Municipalities	20
Education	17
Education (UN Agencies)	27
Health	28
Rubble Removal	14
Economic Enterprises	9
Gaza Reconstruction Mechanism	1.1
UNRWA Funding (General)	175
TOTAL	381.1